

# Request for Approval of Proposed FY2013-14 Budget



June 20, 2013

# COVERED CALIFORNIA BUDGET CYCLE

*Transitioning from calendar year budget, based on spending plan linked to approved federal grants, to an annual budget cycle based on fiscal year budgets and supporting self sufficiency*

**FY 2012-13**

*Entirely Federal Grant oriented and based on Board approval of spending plans reflected in the 1.1, 1.2 & 2.0 Federal Grants*

**FY 2013-14**

*Funded primarily by the 2.0 Federal Grant, but informed by specific business needs that reflect changes from the original Grant allocation to this period/Seeking Board approval in June*

**FY 2014-15**

*Partially funded by the 2.0 Federal Grant, combined with the first complete year of assessment revenue. Will fund activities that support long term self sufficiency/Present to Board in April 2014*

# FINANCIAL GUIDING PRINCIPLES

- **Controlling Costs:** In keeping with our value of affordability, Covered California aims to limit its cost of operations in order to deliver products and services that offer high value to our consumers. This includes consideration of the amount of participation fees on the cost of coverage, balanced with the need to establish modest reserves.
- **Stability:** Provide a reliable and predictable level of resources to support ongoing cost effective operations and provide consumers and health plans with stable rates. This requires planning that takes into account establishing Covered California as a new business operation, and recognition that there is uncertainty in the nature of the work and the scale of operations needed to provide high quality services to enrolled subscribers.
- **Flexibility:** Given the uncertainties in planning for operations, financial plans need to be flexible to allow both adaptation of operational approaches and cost adjustments to match service demands.
- **Accountability:** Covered California is responsible for careful stewardship of public resources. Financial activities are monitored and controlled by Financial Management staff, and will be audited independently to ensure funds are being used consistent with federal and state requirements.
- **Transparency:** Covered California has a responsibility to provide transparency into the management of its finances. Future Board meetings will include the annual budget presentations, quarterly expenditure reports, and audits – and these documents will be posted to our website.



# FISCAL RESPONSIBILITY & RIGOR

- **Financial Oversight and Controls**
  - Monthly Budget meetings with each organizational unit
  - Monthly reconciliation of expenditures to Budget and Grants
  - Internal process for new funding requests
  - Quarterly Federal Reporting
  - Two audits scheduled in 2013
    - FISMA
    - External Audit
  - Planning for a business intelligence tool
- **Ongoing Review of Revenue & Expense Drivers**
  - Manage through dedicated financial planning and budgetary units
  - Planned review of participation fees
  - Core expenditure monitoring:
    - Marketing, Outreach, and Assistants
    - CalHEERS
    - Other Professional Fees
    - Service Center
    - Covered California Staffing

# FINANCIAL REPORTING AND BUDGET CALENDAR

*Covered California Board, State Legislature, Governor and Federal Government*

	January	February	March	April	May	June	July	August	September	October	November	December
2014	Annual Implementation and Performance Report (to Legislature & Governor)	FY 2013-14 Q2 Expenditure Report		Review of FY 2014-15 Budget	Approval of FY 2014-15 Budget					Review of Mid Year adjustments for FY 2014-15	Approval of Mid Year adjustments for FY 2014-15	
					FY 2013-14 Q3 Expenditure Report				FY 2013-14 Year End Expenditure Report		FY 2014-15 Q1 Expenditure Report	
	Quarterly Federal Grant Report			Quarterly Federal Grant Report			Quarterly Federal Grant Report			Complete FISMA Audit	Proposed External Audit	
										Quarterly Federal Grant Report		

	January	February	March	April	May	June	July	August	September	October	November	December
2015	Annual Implementation and Performance Report (to Legislature & Governor)	FY 2014-15 Q2 Expenditure Report		Review of FY 2015-16 Budget	Approval of FY 2015-16 Budget					Review of Mid Year adjustments for FY 2015-16	Approval of Mid Year adjustments for FY 2015-16	
					FY 2014-15 Q3 Expenditure Report				FY 2014-15 Year End Expenditure Report		FY 2015-16 Q1 Expenditure Report	
	Quarterly Federal Grant Report			Quarterly Federal Grant Report			Quarterly Federal Grant Report			Complete FISMA Audit	Proposed External Audit	
										Quarterly Federal Grant Report		

# FEDERAL GRANT SUPPORT TO ESTABLISH COVERED CALIFORNIA

	Period Covered	Funds Committed	Funds Spent	Available Balance
Planning Grant	Sept 2010 - Sept 2011	\$ 1,000,000	\$ 530,000	\$ -
Level 1.1	Aug 2011 - Nov 2012	\$ 39,421,383	\$ 39,421,383	\$ -
Level 1.2	Aug 2012 - Aug 2014	\$ 196,479,629	\$ 79,966,093	\$ 116,513,536
Level 2.0	Jan 2013 - Dec 2014	\$ 673,705,358	\$ 12,040,298	\$ 661,665,060
<b>Grand Total</b>		<b>\$ 910,606,370</b>	<b>\$ 131,957,775</b>	<b>\$ 778,178,596</b>

Source: Funds Committed – Notice of Award; Expenditures - Monthly CALSTARS Reports (Reflecting expenditures through May 2013)

Note: On this and other schedules, some numbers may not add due to rounding



# FY 2012-13 BUDGET VS. PROJECTED YEAR END

	Budget	Projected Year End	Percent Difference
Positions	677	398	-41%
Salaries & Benefits	\$ 28,407,155	\$ 10,123,471	-64%
Contractual Costs	\$ 362,901,317	\$ 286,475,552	-21%
Travel	\$ 1,116,530	\$ 505,143	-55%
Supplies	\$ 1,715,638	\$ 663,634	-61%
Equipment	\$ 1,057,680	\$ 645,046	-39%
Facilities	\$ 2,738,860	\$ 1,367,225	-50%
Other	\$ 3,018,106	\$ 3,368,261	12%
Expenses	<u>\$ 400,955,286</u>	<u>\$ 303,148,332</u>	-24%
CalHEERS Cost Sharing	\$ (34,568,734)	\$ (30,452,392)	-12%
Total Operating Costs	<u>\$ 366,386,552</u>	<u>\$ 272,695,940</u>	-26%

Source: CALSTARS Reports actual expenditures through March 2013; and estimated expenditures through June 2013  
 CalHEERS Cost Sharing: Title XIX Medicaid - 17%; Title XXI CHIP- 1%

## Key Points

- Hiring is occurring at a slower pace than originally budgeted
- Several anticipated contracts are in the process of being completed
- Balance available from federal grants 2012-13 (\$93.7 million) will be redirected to the proposed 2013-14 budget (\$30.9 million) and the remainder (\$62.8 million) to 2014-15

# SPENDING PROPOSAL FOR 2013-14 COMPARED TO THE FEDERAL 2.0 GRANT ALLOCATION 2013-14 BUDGET

	Grant	Budget	Variance	%
Positions	1,161	1,230	69	6%
Salaries & Benefits	\$ 74,230,731	\$ 80,992,502	\$ 6,761,771	9%
Contractual Costs	\$ 262,654,464	\$ 291,286,812	\$ 28,632,348	11%
Travel	\$ 836,784	\$ 905,783	\$ 68,999	8%
Supplies	\$ 3,044,249	\$ 3,320,311	\$ 276,062	9%
Equipment	\$ 1,680,303	\$ 2,123,303	\$ 443,000	26%
Facilities	\$ 14,368,725	\$ 14,659,487	\$ 290,762	2%
Other	\$ 6,841,551	\$ 6,402,051	\$ (439,500)	-6%
Expenses	<u>\$ 363,656,807</u>	<u>\$ 399,690,249</u>	<u>\$ 36,033,442</u>	<b>10%</b>
CalHEERS Cost Sharing	\$ (15,742,621)	\$ (15,742,621)	\$ -	0%
Total Operating Costs	<u>\$ 347,914,186</u>	<u>\$ 383,947,628</u>	<u>\$ 36,033,442</u>	<b>10%</b>

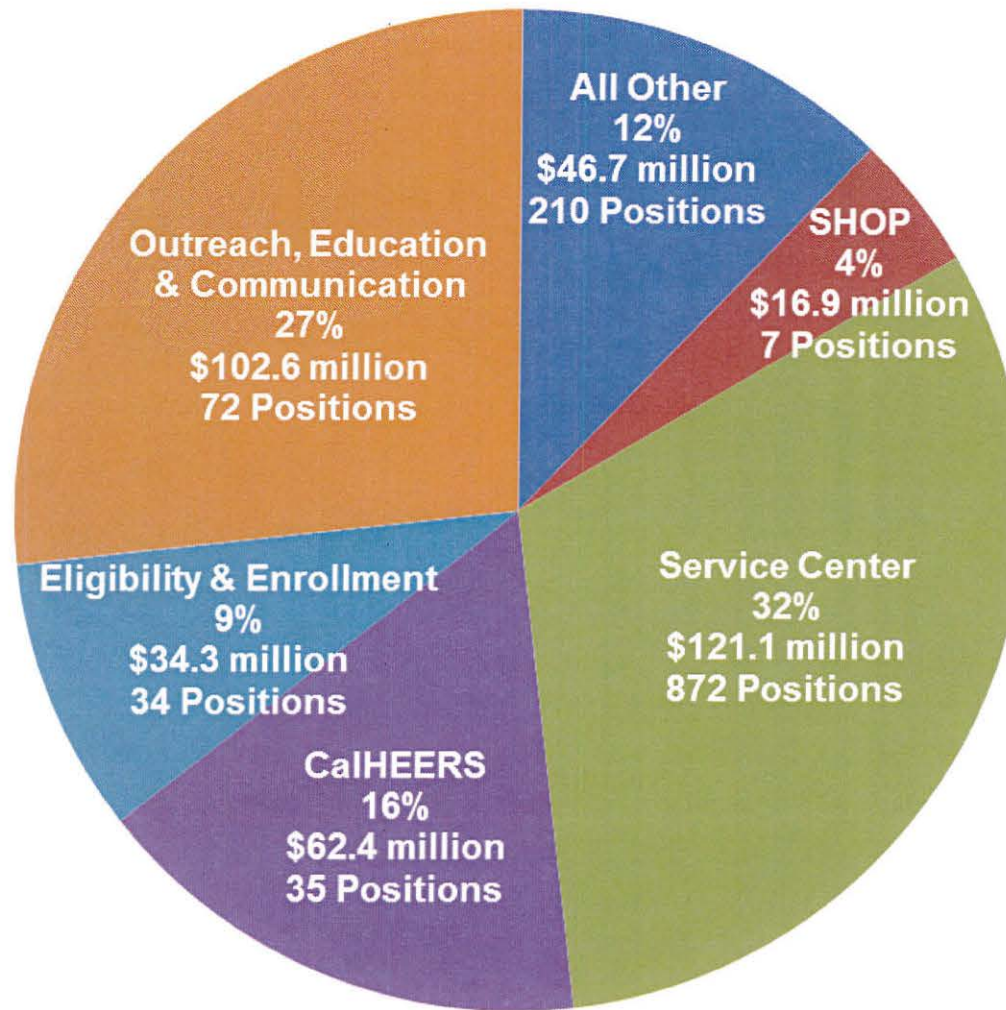
CalHEERS Cost Sharing: Title XIX Medicaid - 17%; Title XXI CHIP- 1% / The expenditure authority recommended for approval is rounded to \$399,690,000

## Key Changes

- Salaries & Benefits – 69 additional positions
- Contractual Costs – Service Center Interpretation Services \$8 million and Staffing \$14 million; Navigator Grants \$5 million
- Additions from May include Service Center Pay Differential \$924,000; additional positions and A/V equipment in PR & Comm. \$912,000; additional positions in External Affairs \$333,000
- Balance available from 2012-13 would be redirected to the 2013-14 budget and 2014-15



# ORGANIZATIONAL BREAKDOWN OF PROPOSED FY2013-14 BUDGET



*Note: Eligibility and Enrollment includes \$5.1 million in Navigator Grants previously included in Outreach, Education and Communication*

# MULTI-YEAR FORECAST – ASSUMPTIONS

- The following pages contain a Multi-Year Forecast for the Individual Exchange, SHOP and Covered California in total, reflecting combinations of Enhanced, Base, and Low Enrollment scenarios
- Compared to the Sustainability Plan adopted by the Board in November, the Multi-Year Forecast reflects:
  - The \$673.7 million awarded via the Level 2.0 Federal Grant
  - An increase of \$36 million in FY 2013-14 expenses for Covered California
  - Application of the PMPM participation fees in 2014 of \$13.95 for the Individual Exchange and \$18.60 for SHOP
  - Transition from calendar year to fiscal year presentation
- Enrollment estimates align with those reflected in the Sustainability Plan
- PMPM participation fees for future years are modeled to adjust downward, or upward, with enrollment and the goal of maintaining a 3-6 month reserve of annual operating expenses
- For all scenarios, operational costs are adjusted in the out-years consistent with the Sustainability Plan



# MULTI-YEAR FORECAST – INDIVIDUAL EXCHANGE

Individual Program - Enhanced	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Members (Fiscal Year End)	893,785	1,478,246	1,941,906	2,308,025
<b>Average Monthly Premium (Calendar Year)</b>	<b>\$ 320</b>			
Federal Grants	\$ 350,892,659	\$ 227,216,565		
Assessment Revenue	\$ 59,847,823	\$ 172,424,166	\$ 211,622,042	\$ 248,411,839
<b>Total Grants &amp; Revenue</b>	<b>\$ 410,740,481</b>	<b>\$ 399,640,731</b>	<b>\$ 211,622,042</b>	<b>\$ 248,411,839</b>
PMPM Assessment 1st 6 Mos		\$ 13.95	\$ 10.46	\$ 9.94
<b>PMPM Assessment 2nd 6 Mos</b>	<b>\$ 13.95</b>	<b>\$ 10.46</b>	<b>\$ 9.94</b>	<b>\$ 9.44</b>
PMPM as a percentage of Premium	4.4%			
Total Operating Costs	\$ 358,381,163	\$ 287,847,068	\$ 280,341,729	\$ 279,138,096
Net Income	\$ 52,359,319	\$ 111,793,663	\$ (68,719,686)	\$ (30,726,257)
Year-End Reserves	\$ 52,359,319	\$ 164,152,981	\$ 95,433,295	\$ 64,707,039
Number of Months of Operating Costs		7	4	3

Individual Program - Base	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Members (Fiscal Year End)	628,979	999,011	1,280,980	1,578,340
<b>Average Monthly Premium (Calendar Year)</b>	<b>\$ 320</b>			
Federal Grants	\$ 350,892,659	\$ 233,494,135		
Assessment Revenue	\$ 43,041,288	\$ 131,947,819	\$ 177,788,362	\$ 222,920,535
<b>Total Grants &amp; Revenue</b>	<b>\$ 393,933,947</b>	<b>\$ 365,441,954</b>	<b>\$ 177,788,362</b>	<b>\$ 222,920,535</b>
PMPM Assessment 1st 6 Mos		\$ 13.95	\$ 12.83	\$ 12.83
<b>PMPM Assessment 2nd 6 Mos</b>	<b>\$ 13.95</b>	<b>\$ 12.83</b>	<b>\$ 12.83</b>	<b>\$ 12.83</b>
PMPM as a percentage of Premium	4.4%			
Total Operating Costs	\$ 358,381,163	\$ 254,543,771	\$ 246,595,764	\$ 244,936,184
Net Income	\$ 35,552,784	\$ 110,898,183	\$ (68,807,402)	\$ (22,015,649)
Year-End Reserves	\$ 35,552,784	\$ 146,450,967	\$ 77,643,565	\$ 55,627,916
Number of Months of Operating Costs		7	4	3

Individual Program - Low	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Members (Fiscal Year End)	274,467	587,259	939,616	1,258,330
<b>Average Monthly Premium (Calendar Year)</b>	<b>\$ 320</b>			
Federal Grants	\$ 350,892,659	\$ 233,878,432		
Assessment Revenue	\$ 18,781,875	\$ 77,572,216	\$ 174,548,401	\$ 219,345,914
<b>Total Grants &amp; Revenue</b>	<b>\$ 369,674,534</b>	<b>\$ 311,450,647</b>	<b>\$ 174,548,401</b>	<b>\$ 219,345,914</b>
PMPM Assessment 1st 6 Mos		\$ 13.95	\$ 16.04	\$ 20.86
<b>PMPM Assessment 2nd 6 Mos</b>	<b>\$ 13.95</b>	<b>\$ 16.04</b>	<b>\$ 20.86</b>	<b>\$ 12.51</b>
PMPM as a percentage of Premium	4.4%			
Total Operating Costs	\$ 358,381,163	\$ 226,402,637	\$ 217,909,501	\$ 216,169,003
Net Income	\$ 11,293,371	\$ 85,048,011	\$ (43,361,099)	\$ 3,176,911
Year-End Reserves (3 mos ops costs)	\$ 11,293,371	\$ 96,341,382	\$ 52,980,283	\$ 56,157,193
Number of Months of Operating Costs		5	3	3

## Key Points

- Covered California building for self sufficiency with uncertainty
- Revenue is highly dependent on enrollment levels
- For FY2014-15 the Board will have to determine the appropriate level of reserves



# MULTI-YEAR FORECAST – SHOP

SHOP Program - Base	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Members (Fiscal Year End)	76,800	148,000	206,600	267,866
Federal Grants	\$ 25,566,465	\$ 29,299,254		
Assessment Revenue	\$ 4,553,280	\$ 15,826,275	\$ 18,198,077	\$ 24,013,079
Total Grants & Revenue	\$ 30,119,745	\$ 45,125,529	\$ 18,198,077	\$ 24,013,079
PMPM Assessment 1st 6 Mos		\$ 18.60	\$ 9.30	\$ 8.84
PMPM Assessment 2nd 6 Mos	\$ 18.60	\$ 9.30	\$ 8.84	\$ 8.84
Total Operating Costs	\$ 25,566,465	\$ 29,299,254	\$ 27,861,457	\$ 27,828,488
Net Income	\$ 4,553,280	\$ 15,826,275	\$ (9,663,380)	\$ (3,815,408)
Year-End Reserves	\$ 4,553,280	\$ 20,379,555	\$ 10,716,175	\$ 6,900,767
Number of Months of Operating Costs		8	5	3

SHOP Program - Low 1	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Members (Fiscal Year End)	40,800	78,200	125,800	167,734
Federal Grants	\$ 25,566,465	\$ 23,021,684		
Assessment Revenue	\$ 2,418,930	\$ 9,855,954	\$ 14,530,971	\$ 22,498,671
Total Grants & Revenue	\$ 27,985,395	\$ 32,877,638	\$ 14,530,971	\$ 22,498,671
PMPM Assessment 1st 6 Mos		\$ 18.60	\$ 13.02	\$ 13.02
PMPM Assessment 2nd 6 Mos	\$ 18.60	\$ 13.02	\$ 13.02	\$ 13.67
Total Operating Costs	\$ 25,566,465	\$ 23,021,684	\$ 21,940,350	\$ 22,450,584
Net Income	\$ 2,418,930	\$ 9,855,954	\$ (7,409,379)	\$ 48,087
Year-End Reserves	\$ 2,418,930	\$ 12,274,884	\$ 4,865,505	\$ 4,913,592
Number of Months of Operating Costs		6	3	3

SHOP Program - Low 2	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Members (Fiscal Year End)	40,800	78,200	125,800	167,734
Federal Grants	\$ 25,566,465	\$ 22,637,387		
Assessment Revenue	\$ 2,418,930	\$ 9,855,954	\$ 14,530,971	\$ 22,498,671
Total Grants & Revenue	\$ 27,985,395	\$ 32,493,341	\$ 14,530,971	\$ 22,498,671
PMPM Assessment 1st 6 Mos		\$ 18.60	\$ 13.02	\$ 13.02
PMPM Assessment 2nd 6 Mos	\$ 18.60	\$ 13.02	\$ 13.02	\$ 13.67
Total Operating Costs	\$ 25,566,465	\$ 22,637,387	\$ 21,544,525	\$ 22,042,884
Net Income	\$ 2,418,930	\$ 9,855,954	\$ (7,013,554)	\$ 455,788
Year-End Reserves	\$ 2,418,930	\$ 12,274,884	\$ 5,261,330	\$ 5,717,118
Number of Months of Operating Costs		7	3	3

Note: Low 1 reflects costs allocated to SHOP at Individual Exchange Base enrollment levels, Low 2 reflects costs allocated at Individual Exchange Low enrollment levels

# COVERED CALIFORNIA MULTI-YEAR FORECAST – INDIVIDUAL AND SHOP

Total Exchange - Enhanced/Base	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Federal Grants	\$ 376,459,124	\$ 256,515,819		
Assessment Revenue	\$ 64,401,103	\$ 188,250,441	\$ 229,820,120	\$ 272,424,919
<b>Total Grants &amp; Revenue</b>	<b>\$ 440,860,227</b>	<b>\$ 444,766,260</b>	<b>\$ 229,820,120</b>	<b>\$ 272,424,919</b>
<b>Total Operating Costs</b>	<b>\$ 383,947,628</b>	<b>\$ 317,146,322</b>	<b>\$ 308,203,186</b>	<b>\$ 306,966,584</b>
<b>Net Income</b>	<b>\$ 56,912,599</b>	<b>\$ 127,619,938</b>	<b>\$ (78,383,066)</b>	<b>\$ (34,541,665)</b>
<b>Reserves</b>				
<b>Year-End Reserves</b>	<b>\$ 56,912,599</b>	<b>\$ 184,532,536</b>	<b>\$ 106,149,470</b>	<b>\$ 71,607,805</b>
Number of Months of Operating Costs		7	4	3

Total Exchange - Base/Low 1	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Federal Grants	\$ 376,459,124	\$ 256,515,819		
Assessment Revenue	\$ 45,460,218	\$ 141,803,773	\$ 192,319,333	\$ 245,419,207
<b>Total Grants &amp; Revenue</b>	<b>\$ 421,919,342</b>	<b>\$ 398,319,592</b>	<b>\$ 192,319,333</b>	<b>\$ 245,419,207</b>
<b>Total Operating Costs</b>	<b>\$ 383,947,628</b>	<b>\$ 277,565,455</b>	<b>\$ 268,536,114</b>	<b>\$ 267,386,768</b>
<b>Net Income</b>	<b>\$ 37,971,714</b>	<b>\$ 120,754,137</b>	<b>\$ (76,216,781)</b>	<b>\$ (21,967,562)</b>
<b>Total Exchange</b>				
<b>Year-End Reserves</b>	<b>\$ 37,971,714</b>	<b>\$ 158,725,851</b>	<b>\$ 82,509,070</b>	<b>\$ 60,541,508</b>
Number of Months of Operating Costs		7	4	3

Total Exchange - Low/Low 2	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Federal Grants	\$ 376,459,124	\$ 256,515,819		
Assessment Revenue	\$ 21,200,805	\$ 87,428,170	\$ 189,079,372	\$ 241,844,585
<b>Total Grants &amp; Revenue</b>	<b>\$ 397,659,929</b>	<b>\$ 343,943,989</b>	<b>\$ 189,079,372</b>	<b>\$ 241,844,585</b>
<b>Total Operating Costs</b>	<b>\$ 383,947,628</b>	<b>\$ 249,040,024</b>	<b>\$ 239,454,026</b>	<b>\$ 238,211,887</b>
<b>Net Income</b>	<b>\$ 13,712,301</b>	<b>\$ 94,903,965</b>	<b>\$ (50,374,653)</b>	<b>\$ 3,632,698</b>
<b>Total Exchange</b>				
<b>Year-End Reserves</b>	<b>\$ 13,712,301</b>	<b>\$ 108,616,266</b>	<b>\$ 58,241,613</b>	<b>\$ 61,874,311</b>
Number of Months of Operating Costs		5	3	3

Note: **Base/Low 1** reflects costs allocated to SHOP at Individual Exchange **Base** enrollment levels, **Low/Low 2** reflects costs allocated at Individual Exchange **Low** enrollment levels



# RECOMMENDATION FOR APPROVAL

Per Government Code Section 100503 (o), which authorizes the Board to make expenditures to pay program expenses to administer the Exchange, the 2013-14 budget is submitted to the Covered California Board for approval.

## Staff Recommendation:

- Approve the proposed Budget for Fiscal Year 2013-14, providing expenditure authority of \$399,690,000
- To address priorities and needs, authority is granted to the Executive Director to adjust amounts budgeted for individual programs and add positions to the extent 2013-14 expenditures remain at the level of expenditure authority approved by the Board
- Adjustments to program budgets and positions shall be provided to the Board in the report of expenditures presented to the Board quarterly



# Exempt Positions for the Health Benefits Exchange as of June 22, 2013

Class Title	Authority	Monthly Salary
Executive Director	100500(i)	\$ 19,871
Chief Deputy Executive Director, Strategy	GC100503 (m)	\$ 16,294
Chief Fiscal Officer	GC100503 (m)	\$ 11,842
Director, Communications & PR	GC100503 (m)	\$ 12,717
Director, SHOP Exchange	GC100503 (m)	\$ 12,717
Chief Technology/Info Ofc	GC100503 (m)	\$ 12,717
General Counsel	GC100503 (m)	\$ 12,717
Chief Deputy Executive Director, Operations	GC100503 (m)	\$ 13,988
Director, External Affairs	GC100503 (m)	\$ 12,717
IT Project Director	GC100503 (m)	\$ 11,446

*Note: GC 100503(m) gives Board authority to establish other key executive positions as determined by the Board*